

Via Electronic Transmission: [regcomments@ncua.gov](mailto:regcomments@ncua.gov)

Mary Rupp  
Secretary of the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

Re: The Golden 1 Credit Union Comments On Part 715 ANPR, Supervisory Committee Audits

Dear Ms. Rupp:

The Golden 1 Credit Union ("Golden 1") provides the following comments in response to the National Credit Union Administration's (NCUA) Advance Notice of Proposed Rulemaking on Supervisory Committee Audits dated February 23, 2006 ("ANPR").

Golden 1 is of the opinion that existing regulations in 12 C.F.R. Part 715 are reasonably designed to provide accurate and transparent credit union reporting and are appropriate given the limited nature and complexity of credit unions. Golden 1 respectfully suggests that before the NCUA determines that additional audit and Supervisory Committee requirements are needed, it consider the following:

1. Has the case been made for placing an additional cost and regulatory burden on credit unions? It is Golden 1's understanding that the National Credit Union Share Insurance Fund (NCUSIF) is fiscally sound. Golden 1 wonders what study or careful analysis has been performed to determine what, if any, financial problems exist at credit unions, the source of the problems, and the additional internal control procedures, additional review of internal control procedures and/or Supervisory Committee changes that would have prevented such problems.
2. Credit unions, in comparison to most public companies and banks, are limited in nature and complexity. The risk profile of loans made by credit unions is not comparable to the loan risk profile of banks. Credit union loans are smaller in size, do not involve the complexity of most bank loans, and are secured by collateral that is relatively easy to value.
3. The fact that larger banks are subject to the "attestation on internal controls" is not a sufficient reason, in and of itself, to impose such rules on credit unions. Parity with banks should only be required if the risk of harm is also in parity; absent that risk, the burden of complying with the attestation requirements far outweighs the benefits, and ultimately is paid for by the consumer/member.
4. Due to the limited availability of specialized internal control auditing expertise in all but the largest communities (e.g., due to the absence of public companies located in or using accounting services located in such communities), the increased audit costs to credit unions will



likely be significant. Costs will include not simply the cost of the independent audit firm, but also the cost of significant management time.

5. The excessive and expensive ramifications of the Sarbanes-Oxley Act ("SOX") are now being recognized through the setting of higher thresholds for the application of such requirements. For example, the FDIC has increased from \$500 million to \$1 billion the minimum asset size of the institutions required by FDICIA to obtain an "attestation on internal controls" over all financial reporting. Should the NCUA be imposing similar obligations on credit unions at a time when serious consideration is being given to the question of whether the application of SOX is excessive?

6. There is movement in the banking industry to change PCAOB's AS 2 Standard to be more effective and efficient. This is only the second year the AS 2 Standard has been used. Auditors, examiners, and banks are together addressing the issues that inevitably arise when a complex standard is first imposed. Golden 1 suggests that the NCUA wait for a period of two or three years while the AS 2 Standard is further developed for use with banks before determining whether it or some other standard is the suitable standard for credit unions.

7. Unlike public companies and banks, there is no shareholder constituency to protect in connection with credit unions. The primary purpose of the SOX requirements was to ensure proper reporting. With proper reporting, the value of the shares would be accurately stated, thus protecting both existing and prospective shareholders from fraud. Since credit unions do not have publicly traded shares, the harm meant to be avoided by the attestation of internal controls is inapplicable.

8. Unlike public companies and banks, credit unions are operated on a not for profit basis. Therefore, the motivation for public companies and banks to improperly report financial information is not at all comparable to credit unions.

The Golden 1 respectfully suggests that, in lieu of making automobile loans and home loans for ordinary citizens more expensive by forcing credit unions to pay outside auditing firms additional millions, if not billions, in accounting fees to "possibly" eliminate problems that may not exist, the NCUA consider more efficient, less expensive alternatives. If there are serious, known problems that can be addressed through additional internal control auditing and/or Supervisory Committee requirements, the NCUA should consider having credit unions spend a more modest amount of their members' funds on improving internal auditing capabilities and independence, preparing in-house internal control audit reports that can be provided to examiners, and improving Supervisory Committee skills and independence.

The Golden 1's specific comments are as follows:

- 1. Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum asset size threshold?**

An “attestation on internal controls” over financial reporting by an external auditor is neither necessary nor appropriate for credit unions. Such attestations were the result of the SOX goal of protecting shareholder investments in publicly traded stocks. Although attestations have been applied to banks and other financial institutions, such other financial institutions are involved in much larger, more complicated and riskier loans than credit unions. Credit unions are not publicly traded and are generally involved in only consumer loans and residential loans that involve a much more definable set of risks. The NCUA currently does a good job of examining credit unions. NCUSIF is well managed. The cost of the additional regulatory burden is unwarranted. Therefore, credit unions should not be required to comply with such requirements.

As noted above, the cost benefit of such a requirement should be carefully examined. Financial Executives International (FEI) communicated the results of a large study of SOX 404 costs and trend analysis. Results were published in March 2005. This survey noted the following:

<b>Annual Sales Review</b>			
<b>Year One Costs of Compliance</b>	<b>Less than \$100 million</b>	<b>\$100-\$499 million</b>	<b>\$500 to \$999 million</b>
<b>Internal Costs*</b>	\$222,275	\$ 349,790	\$ 686,500
<b>External Costs</b>	385,874	679,299	743,756
<b>Auditor Attestation Fees</b>	215,938	543,844	673,083
	\$834,087	\$1,572,933	\$2,103,339

\* Internal Costs assumes full-time professionals (at 2,000 hours per year at a compensation rate [salary plus benefits] of \$100,000 per year).

**2. What minimum asset size threshold would be appropriate for requiring, in addition to a financial statement audit, an “attestation on internal controls” over financial reporting, given the additional burden on management and its external auditor?**

If such a requirement is adopted by the NCUA, the minimum asset threshold should not be lower than \$1 billion. The FDIC recently raised the internal control assessment and attestation requirement of FDIC insured institutions from \$500 million to \$1 billion in total assets. This threshold would provide coverage for approximately 43% of credit union assets. However, it should also be pointed out that if a relationship exists between asset size and the risk of errors or fraud, the assets of smaller credit unions are likely at greater risk due to their lack of adequate resources for internal auditing and controls.

3. **Should the minimum asset size threshold for requiring an “attestation on internal controls” over financial reporting be the same for natural person credit unions and corporate credit unions?**

If the NCUA requires an “attestation on internal controls” over financial reporting by an external auditor, the minimum asset threshold should be the same for both natural person and corporate credit unions.

4. **Should management’s assessments of the effectiveness of internal controls and the attestation by its external auditor cover all financial reporting (i.e., financial statements prepared in accordance with GAAP and those prepared for regulatory reporting purposes), or should it be more narrowly framed to cover only certain types of financial reporting? If so, which types?**

If the NCUA requires an “attestation on internal controls” over financial reporting by an external auditor, the NCUA should support the establishment of Working Groups consisting of Interested Parties (credit union key officials, external auditors, and internal auditors) to fully participate in the assessment to which GAAP accounts or internal controls should be subject to such review. For example, to minimize an excessive and unnecessary burden, the NCUA might develop regulations in which internal audit staff document the testing of internal controls (to be reviewed by examiners) governing those systems that involve the greatest risk to the credit union.

5. **Should the same auditor be permitted to perform both the financial statement audit and the “attestation on internal controls” over financial reporting, or should a credit union be allowed to engage one auditor to perform the financial statement audit and another to perform the “attestation on internal controls?” Explain.**

This is an excellent example of the significant burden an attestation would impose on credit unions. If such a rule change is adopted, the credit union should be allowed to determine the need to engage one or two auditors to perform the financial statement audit and the attestation. Absent special circumstances, efficiency dictates the use of one external auditor since all auditors must satisfy the independence standards.

6. **If an “attestation on internal controls” were required of credit unions, should it be required annually or less frequently? Why?**

If a new requirement for attestation on internal controls is adopted, the attestation should be required every three years. An internal attestation can be prepared in the intervening years to affirm that there have been no material internal control changes or that reported changes are the only changes that have occurred.

7. **If an “attestation on internal controls” were required of credit unions, when should the requirement become effective (i.e. in the fiscal period beginning after December 15 of what year)?**

Publicly traded accelerated filers were given two and a half years to fully comply with SOX. Non-accelerated filers still have not been required to comply during the ensuing four and a half years after SOX was passed in 2002. Compliance in the area of Information Technology controls will require a significant amount of work and will require the longest lead time for robust compliance. IT controls have a pervasive effect on the achievement of many control objectives. If the NCUA requires an “attestation on internal controls” over financial reporting by an external auditor, the Working Groups referenced in the comment to Question 4 should also determine a realistic time-frame for compliance with the requirement.

8. **If credit unions were required to obtain an “attestation on internal controls,” should part 715 require that those attestations, whether for a natural person or corporate credit union, adhere to the PCAOB’s AS 2 standard that applies to public companies, or to the AICPA’s revised AT 501 standard that applies to non-public companies? Explain.**

Golden 1 recommends the NCUA wait for a period of two or three years while the AS 2 Standard is further developed before determining whether it or some other standard is the suitable standard for credit unions. At the present time the AICPA’s revised AT 501 Standard is a reasonable alternative given that credit unions do not resemble and therefore should not be subjected to the same standards as public companies.

9. **Should NCUA mandate COSO’s Internal Control – Integrated Framework as the standard all credit union management must follow when establishing, maintaining and assessing the effectiveness of internal control structure and procedures, or should each credit union have the option to choose its own standard?**

If the NCUA requires an “attestation on internal controls” over financial reporting by independent auditors, the NCUA should mandate COSO’s Internal Control-Integrated Framework. COSO is the standard used in the United States, and experience with this framework is common amongst U.S. external auditing firms. The external auditing companies that may be asked to attest to the reasonableness of a credit union’s internal controls will already have this knowledge and experience. Developing a credit union specific standard would be timely, costly, and difficult to implement.

10. **Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have a minimum level of experience in credit union, banking or other financial matters? If so, what criteria should they be required to meet and what should the minimum asset size threshold be?**

If the NCUA adopts a rule change, we support a requirement for at least one “audit committee financial expert,” as defined by the SEC in its Final Rules under Section 407 of SOX. The minimum asset size threshold should be no lower than \$1 billion, in accordance with current requirements for banks and thrifts. However, credit union Boards of Directors should be allowed to determine whether an individual meets the standard of the “audit committee financial expert.” At least one committee member should be someone with an accounting, auditing or finance background or someone with significant credit union or financial institution experience. The overall mix of skills among all of the committee members is equally important. The credit unions are best equipped to make these judgments.

**11. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel? If so, what minimum asset size threshold?**

Supervisory Committee members should not be required to have access to their own outside counsel. There may be circumstances where such access is appropriate, and it should not be prohibited. In most instances, however, separate legal representation would constitute an unnecessary expense.

**12. Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor? If so, at what minimum asset size threshold?**

We are unsure how the NCUA uses the term “large customer.” We presume that this standard is intended to apply to corporate credit unions, not natural person credit unions. Supervisory Committee members must be independent; however, mere association with a credit union member (who in the case of Golden 1 are all individuals) does not necessarily affect the Supervisory Committee member’s independence. What standards could be put in place that would effectively protect one individual from being improperly influenced by another individual? In a credit union the size of Golden 1 with more than 600,000 members, how would such a standard be monitored?

**13. If any of the qualifications addressed in questions 10, 11 and 12 above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers? If so, describe the obstacles associated with each qualification?**

Any increase in the experience level requirements for Supervisory Committee members will undoubtedly reduce a credit union’s ability to recruit and retain competent individuals to serve. These individuals are difficult to find, cannot be compensated, and will clearly be held to a higher standard of care as a result of their expertise. This will increase the potential for personal liability, especially for those serving as the “audit

committee financial expert.” Any increase in the potential for personal liability will create a key recruiting challenge with this role. Question 11 should not affect a credit union’s ability to recruit for the Supervisory Committee. Question 12 requires clarification before Golden 1 can provide comment on its potential impact on recruitment.

- 14. Should a State-licensed, compensated auditor who performs a financial statement audit and/or “internal control attestation” be required to meet just the AICPA’s “independence” standards, or should they be required to also meet the SEC’s “independence” requirements and interpretations? If not both, why not?**

Credit unions are not public companies. Use of the AICPA standard will avoid a possible cumbersome and expensive problem. Since the SEC’s standard will not permit an auditor to assist internal staff in making certain calculations or analyzing certain matters, credit unions could be forced to engage difficult to find (i.e. expensive) outside independent contractors to make calculations and to analyze matters that internal staff are not competent to handle.

- 15. Is there value in retaining the “balance sheet audit” in existing §715.7(a) as an audit option for credit unions with less than \$500 million in assets?**

No comment.

- 16. Is there value in retaining the “Supervisory Committee Guide audit” in existing §715.7(c) as an audit option for credit unions with less than \$500 million in assets?**

No comment.

- 17. Should part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (whether as required or voluntarily) to forward a copy of the auditor’s report to NCUA? If so, how soon after the audit report period end? If not, why?**

Credit unions that obtain a copy of a financial statement audit and/or an “attestation on internal controls” (whether required or voluntary) should not be required to forward a copy to the NCUA. The NCUA can review the attestation or internal review, if required, in conjunction with the credit union’s regularly scheduled examinations.

- 18. Should part 715 require credit unions to provide NCUA with a copy of any management letter, qualification, or other report issued by its external auditor in connection with services provided to the credit union? If so, how soon after the credit union receives it? If not, why?**

Credit unions should not be required to provide the NCUA with a copy of any management letter, qualification, or other report issued by its external auditor, except in conjunction with the credit union's regularly scheduled examinations. We also note that there are occasions when a credit union may wish to engage a CPA firm for operational purposes. We assume that in such instances any report generated by the firm would not be within the scope of the "services" contemplated by this question, and that "services" in this context refers to the occasions when the CPA firm is serving as the external auditor.

- 19. If credit unions were required to forward external auditors' reports to NCUA, should part 715 require the auditor to review those reports with the Supervisory Committee before forwarding to NCUA?**

The Supervisory Committee should review the reports with the external auditor regardless of whether the reports are forwarded to the NCUA. This is a logical step for a well managed and informed Supervisory Committee.

- 20. Existing part 715 requires a credit union's engagement letter to prescribe a target date of 120 days after the audit period-end for delivery of the audit report. Should this period be extended or shortened? What sanctions should be imposed against a credit union that fails to include the target delivery date within its engagement letter?**

The existing prescribed target date of 120 days is reasonable. However, sanctions should not be imposed against a credit union that fails to include the target delivery date within its engagement letter. External auditors can be hesitant to commit to delivery of opinions by specific dates because unforeseeable conditions may arise during the audit that could negatively impact such delivery dates. Credit unions and external auditors should have flexibility in meeting the target dates if justifiable extenuating circumstances arise.

- 21. Should part 17 require credit unions to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation? If so in cases of dismissal or resignation, should the credit union be required to include the reasons for the dismissal or resignation?**

Credit unions should not be required to notify NCUA in writing when they enter into an engagement with an auditor, and/or when an engagement ceases by reason of the auditor's dismissal or resignation. The NCUA can examine any documents related to the auditor's dismissal or resignation during the credit union's regularly scheduled examination.

- 22. NCUA recently joined the final *Interagency Advisory on the Unsafe and Unsound Use of Limitation of Liability Provisions in External Audit Engagement Letters*, 71 FR 6847 (Feb 9, 2006). Should credit union Supervisory Committees be prohibited by**

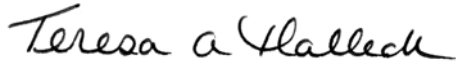


**regulation from executing engagement letters that contain language limiting various forms of auditor liability to the credit union? Should Supervisory Committees be prohibited from waiving the auditor's punitive damages liability?**

The access to auditors will differ from credit union to credit union and from state to state. The extent of the effectiveness of any limitation of liability and the ostensible waiver of punitive damages liability will also differ extensively from state to state. While auditors should adhere to the AICPA Standards, regulations proscribing the scope of engagement letters could have the unintended effect of further reducing the number of auditors qualified and available to perform the audit. It would also increase the risk to the auditor, with a concomitant increase in the cost to the credit union. Therefore, this issue should remain a matter of contract negotiation between credit union and the auditor.

The Golden 1 Credit Union appreciates the opportunity to provide comments in response to NCUA's Advance Notice of Proposed Rulemaking (715) on the Supervisory Committee audit rules. We look forward to continued participation as any new rules are further considered.

Respectfully,

A handwritten signature in cursive script that reads "Teresa A. Halleck".

Teresa A. Halleck  
President & CEO